Reviving the state?

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Reviving the State?

Ethan B. **Kapstein** World Development Report 1997 World Bank

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After 50 years in the development business, the World Bank has made the startling finding that the state matters. The 1997 World Development Report (WDR), subtitled "The State in a Changing World," tells us why that is so, and what public officials should do to build an "effective state." The WDR thus provides us with something like the economist's equivalent of The Prince, giving a rationalistic account of government policymaking at a time when the state's very existence is threatened by all manner of foe, both internal and external.

Like Machiavelli, the authors of the WDR are writing at a time when state structures are in the midst of a profound transformation. Machiavelli's objective was to provide advice that would make his benefactor's political survival more likely in a rapidly changing environment. That involved matching goals with capabilities-this is also the crux of the Bank's advice-and it depended as well upon the intangible leadership qualities of the Prince himself. Yet even the best-governed state may fall prey to systemic forces that are beyond its control, and indeed even the most powerful citystates are now just a historical memory.

Why then is the Bank seeking to revive the state when it seems increasingly feeble? Does the nation-state still remain the organizational form best suited to the contemporary international environment? Why not focus instead on possible alternative institutional arrangements, including, for example, a greater role for the World Bank in international economic management? The simple answer is that in the WDR the Bank, like Machiavelli, is addressing its own benefactor, which is, of course, the state. The Bank cannot do much to alter the international system for good or ill; all it can do is to provide its clients with a set of "best practices."

In the event, the Bank has rarely been at the cutting edge when it comes to identifying major global trends. It has lagged in focusing on such areas as environmental degradation, poverty, and corruption. In each case, it has been pushed into action by nongovernmental organizations through its member countries (usually the United States). It has failed to denounce the crooked path of Russian privatization-a process that it has generously supportedand the recent Asian financial crisis caught it off guard. Unfortunately, the Bank, with its crippling bureaucracy, duplicative functions, and many agencies, seems to spend more time on internal reorganization than any other activity.

For all that, the Bank is still home to considerable human capital-not surprising, given that it's a golden cage-and the Report brings to mind the talents. of both the Bank's staff and its consultants. It competently and clearly-if not eloquentlysynthesizes the most recent political economy literature on the state (an approach that focuses on how self-interested actors advance their interests), making it a useful text for scholars, students, and general readers who wish to familiarize themselves with this methodological approach. It also provides useful data and numerous anecdotes about government activities around the world. How policymakers can productively adopt its counsel is, however, less clear, since-as the Bank itself recognizes-the path to "good" policymaking is generally blocked by all sorts of special interest groups. Further, in a global economy, it is quite possible that policies viewed as being "good" from a domestic perspective will be seen as "bad" from the viewpoint of foreign investors, and nowhere are these tensions grappled with in any detail.

To the Bank, the ideal state is apparently a rational, independent actor, free of the pulling and hauling of domestic politics, and presumably run by economists. (Indeed, in a recent article, "Is the Government Too Political?" the Princeton economist Alan Blinder answers his own question by arguing that the "independent" Federal Reserve Board provides a policymaking model that should be more widely adopted).' And while the WDR makes an implicit argument for democracy (although the relationship between democracy and capitalism, much less between democracy and "good" policymaking, is hardly straightforward), it treats all democracies as pretty much the same, failing to recognize what the political scientist Fareed Zakaria has recently called "the rise of illiberal democracy."2 In short, the Bank gives us policy without politics.

But most important, in focusing on the responsibility of the state and its institutions for formulating "good policy," it gives short shrift to the role that external actors, such as currency traders, may be playing in undermining the role of the state. That is where much of the real analytical action is nowadays and where the WDR could have made a signal contribution. But since expressing the slightest doubt about globalization's universal benefits is an ideological no-no at the Bank's Washington headquarters at 1818 H Street-close as they are to the U.S. Treasury-the WDR must leave us unsatisfied in this regard.

In this article I examine the state of the state through the eyes of the World Bank and other analysts. As we proceed, we must be vigilant in recognizing that the Bank is hardly a neutral observer of the nation-state. It depends upon governments for its very existence on both the supply and demand sides. It is governments that guarantee the Bank's funding and repay the loans the organization makes. Indeed, the loans are made to governments, meaning central governments. The Bank is a creature of states, and thus has very real material and ideological interests at stake in the debate over the state's future.

Whither the State?

The World Bank was established in 1944 at Bretton Woods, New Hampshire, alongside its "twin," the International Monetary Fund (IMF). These institutions were at the cornerstone of the new, multilateral economic order that the United States hoped to establish at the close of the Second World War. The Bank is in fact made up of several different operating agencies that make loans and investments in developing countries, but its main task remains what it has always been: the provision of large loans to central governments for public projects, including infrastructure and structural reform (e.g., privatization).

The Bank's president has always been an American, most famously Robert McNamara, who arrived after serving as secretary of defense during the Vietnam buildup. (McNamara's tenure surely represents one of the most prominent "guilt trips" in the public record, and his appointment further proof of Lyndon Johnson's cosmic sense of humor.) Its current president, James Wolfensohn, came from the investment firm he founded and he, like McNamara, has taken a special interest in the Bank's work on "poverty." Long criticized by conservatives for being a "statist" institution, the World Bank comes out of the closet in the 1997 World Development Report. Here it advocates "effective" states, meaning states that use their capabilities "to meet society's demand" for collective goods and vigorous bureaucracies that use their power for the public interest. But is this call falling on deaf ears as we reach the millennium? After all, who really cares about strong central governments anymore?

Thus, the distinguished military historian Martin Van Creveld has recently written that "the State, which since the Treaty of Westphalia (1648) has been the most important and most characteristic of all modern institutions, is dying. Wherever we look, existing states are either combining into larger communities or falling apart...."3 Van Creveld (and he is not alone in this) points to three factors that are undermining the state's continued ability to monopolize the use of coercive force over a given territory: first, the end of the Cold War; second, the collapse of the postwar welfare state; and third, global economic and technological change.

The end of the Cold War was a decisive event in state history because it spelled an even larger development: the end of greatpower conflict. For three centuries, nationstates have devoted a great deal of time, energy, and money in fighting each other. Indeed, one of the rationales for the creation of the modern state was its capacity to raise troops and produce weaponry; in short, to provide for collective security. As the political sociologist Charles Tilly said in a famous phrase: "War made the state, and the state made war."

Now, with the collapse of communism and the Soviet threat, the world is on its most peaceful plane in modern history.4 To be sure, there are violent conflicts almost everywhere, but it must be emphasized that none of these pit two or more nuclear states in a fight to the finish. Such a conflict has become unthinkable; to the contrary, we now witness on a daily basis such occurrences as the United States and Russia working together on peacekeeping operations. Further, with the spread of democracy, the possibility of war among great powers is becoming even less likely.

The end of the Cold War has therefore brought a significant decrease in defense spending, in arms sales, and, more generally, in the demand for state services. No longer can the government build highways, fund research and development, or even pay for the education of graduate students on the basis of its "national security" requirements. If national security has been, to borrow Samuel Johnson's phrase, "the last refuge of the scoundrel," that refuge is now disappearing.

How Legitimate Is the Welfare State?

This emphasis on the state's role in military conflict, however, would seem to miss an even larger trend. After all, since the end of the Second World War, the great surge in public spending has been in the area of "welfare provision," broadly defined. By the 1990s, according to the WDR, "industrialcountry governments spent more time moving money around the economy in the form of transfers and subsidies than they spent providing traditional public goods." In short, while nation-states have devoted considerable resources to warfare, they were also welfare states, and over time the functions of the latter have come to dominate the policy arena.

Yet in examining these two primary state functions, we should recognize that, from a historical perspective, they are intimately linked and even today may not be decoupled so easily. Is it a coincidence to find that the end of the Cold War is also associated with rising doubts about not just the cost but also the legitimacy of the welfare state? To be sure, calls for welfare state reform would have arisen in any case; the specter of aging populations and a growing belief among the better-off that the postwar welfare state had "failed," are producing inexorable pressures on governments to reform their transfer systems (which is ironic since the main beneficiaries of the welfare state have been these very groups, although they are hardly the target of current policy changes).5 In the event, dramatic policy changes have already occurred, and as a result we now find that income inequality is growing around the world, with the rich becoming significantly richer.

Still, the larger political context remains important, and we should recall that the postwar welfare state arose in the capitalist West on the ashes of the Second World War and under the shadow of the Soviet Union. Western leaders had learned from the Nazi and Bolshevik experiences that social insurance was a critical element in easing domestic social tensions and building a machine for mass troop mobilization. As Edward Phelan of the International Labor Organization told a Columbia University audience in 1941, "Germany prepared for war, not only militarily and industrially, but also socially. Its social machine, when placed at the service of military conquest, has been revised, lubricated and perfected in every part....".

In time, the Allies would also see the necessity to develop social insurance programs as part and parcel of the war effort. Thus, in Britain Sir William Beveridge chaired the Committee on Social Insurance and Allied Services whose report would bear his name. The "Beveridge Report" has gone into history as the foundation document of the modern welfare state. (In fact, it was in wartime Britain that Archbishop Temple coined the phrase "welfare state" to mark the contrast with Hitler's "warfare state.") Beveridge emphasized that "each individual is more likely to concentrate upon his war effort if he feels that his Government will be ready in time with plans for a better world...."

Recalling that after the First World War many returning veterans brought home radical and frightening ideas from the battlefield, Beveridge and his colleagues were determined to cushion capitalism's hardships -the risks and uncertainties associated with changes in market performance-with generous welfare programs.

Similarly, in the United States, the postwar "Employment Act" and the "GI Bill" were products of these wartime and Depression-era lessons leavened by a healthy fear of Soviet communism. Thus, according to Walter Goodman, writing in the New York Times, the GI Bill was "prompted in part by unease lest the return of so many battletoughened veterans without futures be accompanied by political volatility; memories of the fascist and Communist movements that came out of World War I were still disturbingly fresh."' When viewed in this light, we see that welfare state policies were not charity in government clothing but rather a political adaptation to the exigencies posed by domestic conflict on the one hand and international violence on the other.

The "beauty" of the transnational Soviet threat was that it fed both the capitalist welfare and warfare states. The insidious nature of domestic communist political parties and labor movements pushed capitalist states to develop generous welfare programs; the massive Red Army and Sputnik-capable defenseindustrial complex meant that capitalist states had to hone their warmaking capacity as well. Thus, the collapse of the Soviet Union may have brought down with it not one but two great pillars of postwar capitalist state expansion: warfare and welfare.

The American Project

The net effect of the Cold War's end on domestic politics in the West is still largely unknown-but the impact on the international system was immediately palpable. It has meant the end of bipolarity and ushered in an age in which the United States is the single dominant power. This means that many of America's most cherished projects for the world, once stymied by the Soviet bloc, are now rapidly advancing. Of those, none is greater than economic globalization.

During the Cold War, and as part of its broader grand strategy, the United States had fashioned an international economy that was limited to the Western allies and noncommunist developing countries. The communist world was not just excluded, it was the object of economic warfare, which led to the strengthening of the capitalist state in the economic arena. A wide variety of institutions were thus created to regulate economic behavior in the service of that grand strategy-the whole organizational apparatus that controlled imports, exports, foreign aid, raw material stockpiles, and so forth. This placed firm controls on globalization, making the system much more manageable.

Beyond that, our postwar leaders had "learned" from history that the state must play a powerful mediating role between the international and domestic economies. Postwar Western leaders-among them the British economist John Maynard Keynes-had drawn from the experience of nineteenthcentury British-sponsored globalization that unregulated free markets-especially free labor markets-must have severe consequences for social and political stability, and thus for the threat of revolution and war. This was the great story of the rise and fall of the nineteenth-century market economy.

The world leaders who met at Bretton Woods in 1944 thus wanted to ensure that the state would act as arbiter between the global forces generated by trade and financial movements and their domestic societies. All the major international institutionsthe General Agreement on Tariffs and Trade, the International Monetary Fund, and the World Bank-gave the nation-state pride of place in economic policymaking. Nobody at that time could have predicted the changes that would, by the millennium, place in doubt the continued viability of state structures.

Today, then, we find the Bank coming home to its roots in the nation-state. But the state it returns to is a far cry from the powerful, wartime nations that created it, or the fledgling, postcolonial states that needed its guidance and money for development. For, as this brief review suggests, the problem of the contemporary nation-state is fundamental; it concerns nothing less than its raison d'etre.

Banking on the State

Curiously, the Bank opens its report by suggesting that "today's intense focus on the state's role is reminiscent of an earlier era, when the world was emerging from the ravages of World War II...." But that is hardly the case. In 1945, states were emerging from a halfcentury of world war, revolution, and economic depression. Millions had died in the name of the state. Governments owed their citizens for the sacrifices they had made. People were due a wide array of social services as partial compensation for the generations of suffering that had been endured.

The past 50 years, however, have altered the state. The postwar struggle between capitalism and communism, for example, never erupted into violence at the "center." Peripheral conflicts occurred, but rather than enforce state authority these wars-in Vietnam and Afghanistan, among other places-called Moscow's and Washington's policies into question. In short, state authority was weakening even before the Cold War's end.

Further, the postcolonial experiencenow 50 years along-produced decidedly mixed results around the world, for a variety of social, political, economic, and geographic reasons. Some of the states carved out of the European empires were probably not viable from the outset; they lacked natural resources and access to the sea, and were plagued by high rates of illiteracy, poor health care, and a wide variety of social and political ills.

At the same time, many of these states were poorly served by leaders whose corruption and greed simply knew no bounds. Again, this experience raises the painful question of whether the Westphalian state is really the organizational form best suited to tackle the problems facing many population groups.

That being said, the Bank wants to make the case that the state still has important functions to fulfill. These range from "minimal" to "activist" functions in "addressing market failure," on the one hand, and "improving equity" on the other. The Bank's matrix of state functions raises all sorts of questions about what is really driving its analysis.

For example, the Bank claims that a state's "minimal functions" include "antipoverty programs." This suggests a definition of "minimal" that goes well beyond the "night watchman" state familiar to libertarian theorists. In that world, the state's role is limited to providing law and order and national security. What justification can be provided for requiring that even a minimal state formulate antipoverty programs? Does this not go against its message of matching goals to capabilities?

Using the Bank's rationalist methodology for evaluating policymaking, which focuses on the maximizing behavior of selfinterested actors, we can only conclude that it is in the Bank's interest to call antipoverty programs a minimal state function. Since many of the states that the Bank deals with in Africa and elsewhere are indeed minimal, and hardly capable of formulating, much less executing, antipoverty programs, this requirement seems almost laughable. But since the Bank has no role to play in providing law and order or national security, it can only defend its existence everywhere by making claims for the universal importance of antipoverty programs, in which it presumably has expertise. In short, the Bank has provided a list of state functions that are in its own interest to promote.

Similarly, the Bank tells us that "intermediate" and "activist" functions of the state include such tasks as providing social insurance and even asset redistribution. Again, why these must be considered state functions is never fully explicated. We know that historically states did not see these functions as their responsibility. To the extent that they have become associated with the state, this has been the result of protracted domestic political struggle, not the gift of enlightened bureaucrats. Indeed today we find many elected officials and bureaucrats under pressure to cut these very redistributive programs to the bone.

When "Good" Policies Are Not Enough

This raises the larger question introduced at the outset of this essay: what is the role of the state in a global economy? The World Development Report makes passing reference to the "challenges" posed by globalization, but nowhere does it attempt to wrestle with the problem in real policy terms. It is not enough to say that states need to adopt "good policies," since even good policies may be viewed as bad by the international capital markets. In fact, it would be very difficult to define a set of social policies that would meet both domestic political requirements and the dictates of international finance. International finance, with its shortterm outlook, might favor cutting social policies so deeply (say in order to eliminate budget deficits) that domestic unrest results. This, in fact, has been the post-1982 experience of many Latin American countries, and the jury is still out as to whether this painful medicine will restore the patient. In the meantime, we do know that it has enriched the wealthy while the poor still wait for something to trickle down.

This problem has already been recognized by the International Monetary Fund. In a recent report, the IMF makes no effort to mask the problems facing governments that seek to redistribute income or provide other social programs on the backs of taxpayers. It states clearly that "globalization may be expected to increasingly constrain governments' choice of tax structures.... Internationally mobile factors of production.. can more easily avoid taxes levied in particular countries...."8

Yet when confronted with this same problem, the World Bank obliquely tells us that "managing the risk of capital flight... has been a challenge for most developing countries." Its solution does not go beyond the obvious, including the formulation of "prudent fiscal policies" and "credible monetary and exchange rate regimes." East Asia, we should note, was widely applauded for both these things before the financial crisis that swept it in late 1997.

That experience leads to the troubling question, What if even "good" policies are not enough to bring about domestic stability? What if even the "best" governments find themselves unable to meet national objectives in a global economy? These are the sorts of questions that are on the tongues of officials around the world. But the Bank has refused to ask these questions, much less answer them.

What "Miracle," What "Model"?

The 1997 World Development Report is an exceptional artifact. It presents the latest rationalistic account of the nation-state at a time when the latter's continued viability is in doubt. It presents sound, commonsense advice to policymakers, peppered with examples of good governance from around the world. Like Machiavelli, the Bank is making a plea to its clients to adopt "best practices"-or else.

But therein lies the rub. If the East Asian experience teaches "bad" governments that even "good" governments fail when globalization gets the upper hand, it will become all the more difficult for the Bank to get its message across. To be sure, we can imagine World Bankers in capitals everywhere now explaining that East Asia's problems were due to corrupt financialindustrial structures, coupled with an absence of banking regulation, but the reply will be: "Well why didn't you point out the problems sooner? Why did you consistently applaud East Asia, calling it both a 'miracle' and a 'model'?" The failure of our international economic policymakers to recognize Asia's problems sooner should provide good journalistic grist for years to come.

And this points to an even more troubling conclusion. What if we discover, after all, that Bank officials were aware of East Asia's growing difficulties but failed to act sooner for reasons of organizational politics? World Bankers, after all, are sophisticated individuals, with lots of field experience; they tend to know what is happening in their regions. The problem is that their views may never make it through headquarters to become public information. This suggests that one essential task for the Bank going forward is to permit its officials to speak truth to power before, not after, the fact.

But is this possible? The Bank, after all, is a creature of states; it is their client. How much autonomy does it have in its analysis and operations? How far can the Bank's management go in raising the most important issues facing the global economy? The World Development Report provides a hopeful sign that the Bank is now seeking to "push the envelope," if only meekly. Nonetheless, given the great turmoil and uncertainty associated with the world economy, it will have to go much further if it seeks to provide useful guidance-much less reassurance-to its clients.

Notes

1. Alan Blinder, "Is Government Too Political?" Foreign Affairs 76 (November/December 1997), pp. 115-26.

2. Fareed Zakaria, "The Rise of Illiberal Democracy," Foreign Affairs 76 (November/December 1997), pp. 22-43.

3. Martin Van Creveld. "The Fate of the State," Parameters (spring 1996), p. 4. 4. On the consequences of this development for the nation-state, see Michael Desch, "War and Strong States, Peace and Weak States?," International Organization 50 (spring 1996), pp. 237-68. 5. Dennis Snower, "The Future of the Welfare State," Economic Journal 103 (May 1993), pp. 70017.

6. Edward Phelan, "Social Services and Defense," Proceedings of the National Conference on Social Work, 1941 (New York: Columbia University Press, 1941).

7. "A Way to Repay the GI's and Rebuild America," New York Times, October 27, 1997. 8. International Monetary Fund, World Economic Outlook: May 1997 (Washington, D.C., 1997), p. 70.